Summary Analysis of Private Student Loans

**Purpose of Study**
To help educate students on the types and possible outcomes of private student loans, hopefully giving them an advantage when/if they are faced with the decision of what type of loan to choose.

**Background**
- 1.4 million undergraduate students borrowed private student loans in the 2011-12 calendar year.
- In the 2014-15 calendar year, private student loan debt hit roughly $7.8 billion.
- Total U.S. Student Loan Debt is currently sitting near $1.48 trillion.
- **Fixed Rate Loan** - A loan that applies the same rate over the entire life of the loan.
- **Variable Rate Loan** - A loan with a rate that adjusts according to the behavior of an index at specified time intervals.

**Methodology**
- First I took the highest and lowest offered APR for both fixed and variable rate loans, to reflect borrowers with opposite extreme credentials.
- I then created an amortization table using those rates to find the interest and final payoff amount for each scenario.
- Finally, I compared the data to create an analysis of possible outcomes for both options.

**Table 1: Education Private Loan Rates**
*Although resident & non-resident interest rates were the same, a distinction had to be made due to the higher tuition dollar amount non-resident students are forced to pay
* Data was collected from://wfefi.wellsfargo.com/terms/todays_rates.jsp

<table>
<thead>
<tr>
<th></th>
<th>FIXED</th>
<th>VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
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<tr>
<td>Resident Grad/Undergrad</td>
<td>12.99%</td>
<td>5.24%</td>
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<tr>
<td>Resident Refinanced</td>
<td>8.24%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Non-resident Grad/Undergrad</td>
<td>12.99%</td>
<td>5.24%</td>
</tr>
<tr>
<td>Non-Resident Refinanced</td>
<td>8.24%</td>
<td>8.24%</td>
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**Fixed APR**
- Worst Case Scenario - “Bad Credit”
  - Bad Credit: Has an APR of 12.99%, with a cumulative interest of -$127,000 and final payoff amount of $227,000 on a $100,000 loan.

**Variable APR**
- Best Case Scenario with Bad Credit
  - Bad Credit: Has an APR of 16% decreasing by 1% for 5 years, with a cumulative interest of $177,000 and final payment of $277,000 on a $100,000 loan.

**Results**
- **Fixed Rate Loan**: When looking into the fixed rate loan scenarios I found that the highest offered APR (worst case scenario) of 12.99% was still much lower than the 18% APR for variable rate loans. When comparing the high and low APR of fixed rate loans it gave a good idea of the window of possibilities that one could be presented with. The lowest offered APR of 5.24% on a $100,000 loan gave the borrower a total payoff amount of $144,000. The highest offered APR of 12.99% on the same $100,000 loan resulted in a total payoff amount of $227,000, a difference in total payoffs of $83,000.

- **Variable Rate Loan**: When looking at the variable rate loan scenarios I found that there was a much larger deviation of possible outcomes. Although I could not find a definite incremental percentage increase or decrease from lenders, I used a conservative 1% to represent the change in rate. For the highest offered APR of 18%, decreasing 1% per year for 5 years, on a $100,000 loan the student would have a total payoff amount of just over $277,000. With the lowest offered APR of 4.11%, increasing by 1% per year for 5 years, the student would have a total payoff amount of $148,000 on the same loan.

**Conclusion**
In conclusion, private student loans can be a very costly option. Variable rate loans could appear to be cheaper, but as shown in the study could rise over time. For those who are more sensitive to possible externalities, a fixed rate loan could be better suited. In the end, it all comes down to the borrower and their willingness to carry risk.